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Testimony of Representative Tom Reynolds
Joint Committee on Appropriations
April 5, 2011

H.B. 5650, AN ACT CONCERNING TRANSFERS OF GENERAL FUND SURPLUS TO THE BUDGET RESERVE FUND

Senator Harp, Representative Walker, and fellow members of the Appropriations Committee, I am pleased to submit testimony in support of this proposed bill, which I introduced as part of a package of budget reform legislation to change the state's policies and practices that have helped to create and perpetuate our fiscal crisis.

This bill would amend state law governing the Budget Reserve Fund (BRF or "Rainy Day Fund") by increasing the maximum permissible balance of the BRF from 10% of the current fiscal year net appropriations from the General Fund to 15%.

The bill would also require mid-year sweeps of projected surplus be deposited into the BRF. If the State Comptroller projects a surplus of greater than 1% of current fiscal year net appropriations from the General Fund, the State Treasurer would transfer, during such month, the amount of such projected surplus greater than 1% to the BRF. Any transfer could be reversed if the state ultimately ended the year in a deficit.

The BRF exists to help the state endure economic downturns when revenues are declining and avoid reacting to them in ways that may exacerbate the decline. State law allows the BRF to equal up to 10% of net General Fund appropriations. Prior to the current biennium, the BRF had a balance of $1.4 billion, which was 81% of the full statutory capacity or $330 million short. The state's failure to meet this statutory threshold is largely the result of using billions of dollars in surplus to fund ongoing programs, rather than for building the Rainy Day Fund and reducing debt or unfunded liabilities.

For example, $290 million in FY 2007 surplus, $480 million in unspent FY 2008 funds and another $16 million of FY 2008 transferred revenues were used to fund ongoing expenses in the FY 2009 budget. This led to structural deficits that contributed greatly to the scope of our current fiscal crisis.

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